

## Message Text

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SUBJECT: CHINA-JAPAN OIL AGREEMENT--VOLUME, PRICE AND SHIPPING

REF: TOKYO 10312

SUMMARY: THE RECENT MEETINGS IN PEKING WITH THE JAPANESE OIL IMPORTERS RESULTED IN SOME CONCESSIONS BY BOTH SIDES. JAPAN WILL IMPORT AN ADDITIONAL 700,000 MT OF PRC CRUDE IN THE JULY-SEPTEMBER PERIOD BRINGING SCHEDULED DELIVERIES FOR THE YEAR TO 6.8 MILLION MT. THE F.O.B. PRICE WILL REMAIN AT THE LEVEL OF THE FIRST HALF OF THE YEAR, US\$12.30 PER BARREL, CHINA, HOWEVER, AGREED TO ADOPT THE WORLD SCALE RATES FOR DELIVERY IN CHINESE TANKERS. DIFFERENTIAL RATES WILL BE CHARGED ACCORDING TO THE PORT OF DESTINATION IN JAPAN RESULTING IN AN AVERAGE 20 CENTS PER BARREL CUT IN THE C&F PRICE TO US\$12.65 PER BARREL. ALSO, PEKING APPARENTLY PLANS TO MAKE GREATER USE OF ITS GROWING TANKER FLEET TO INCREASE ITS SHARE OF OIL DELIVERIES TO JAPAN TO 50 PERCENT FROM THE PRESENT 40 PERCENT. END SUMMARY.

1. ACCORDING TO PRESS REPORTS CONFIRMED BY INDUSTRY SOURCES IN JAPAN (REFTEL), THE RECENTLY CONCLUDED VISIT BY A DELEGATION FROM THE TWO JAPANESE IMPORTERS  
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OF PRC OIL PRODUCED AGREEMENT TO INCREASE THE VOLUME

OF CHINESE OIL EXPORTS TO JAPAN AND TO EFFECTIVELY LOWER THE C&F PRICE OF CHINESE SHIPMENTS. THE JAPANESE AGREED TO IMPORT AN ADDITIONAL 700,000 MT OF PRC CRUDE, APPARENTLY IN THE THIRD QUARTER OF 1976. THIS BRINGS SCHEDULED DELIVERIES OF CHINESE OIL TO 6.8 MILLION MT FOR THE YEAR COMPARED WITH 8.1 MILLION MT IMPORTED IN 1975 BY JAPAN. INTERNATIONAL OIL TRADING CO. WILL TAKE AN ADDITIONAL 300,000 MT, WHILE JAPAN-CHINA OIL IMPORT COUNCIL WILL ACCEPT ANOTHER 400,000 MT, SUBJECT TO CONSULTATIONS WITH ITS MEMBER REFINERS AND TRADERS.

2. ON PRICING, PEKING REFUSED REQUESTS TO LOWER THE F.O.B. PRICE OF ITS OIL, SINCE OPEC PRICES WERE UNCHANGED, BUT IT AGREED TO MAINTAIN THE SAME LEVEL AS IN THE FIRST HALF OF THIS YEAR, US\$12.30 PER BARRLE, THROUGH THE THIRD QUARTER. CHINA DID AGREE, REPORTEDLY AS A CONDITION TO THE INCREASED IMPORTS, TO ADOPT THE WORLD SCALE (WS) FORMULA FOR DELIVERIES IN CHINESE TANKERS. THE WS IS THE INTERNATIONAL STANDARD FOR OIL TANKER FREIGHT. PREVIOUSLY CHINA CHARGED A FLAT US\$12.85 PER BARREL C&F TO ALL PORTS OF DESTINATION IN JAPAN. BEGINNING THIS MONTH, CHINESE C&F PRICES WILL VARY BY DESTINATION--US\$12.68 FOR CHIBA, US\$12.66 FOR YOKOHAMA, AND US\$12.65 FOR NAGOYA. THE NET RESULT WILL BE AN AVERAGE REDUCTION IN THE C&F PRICE OF 20 CENTS PER BARREL.

3. AT PRESENT, ABOUT 40 PERCENT OF CHINA'S OIL SHIPMENTS TO JAPAN ARE CARRIED IN CHINESE TANKERS. THUS, ONLY ABOUT 280,000 MT OF THE ADDITIONAL OIL WILL BE AT THE NEW C&F RATES IN ADDITION TO AMOUNTS PREVIOUSLY CONTRACTED. THE CHINESE REPORTEDLY PLAN TO INCREASE THEIR SHARE OF OIL SHIPMENTS TO JAPAN TO 50 PERCENT. ALSO, THE JAPANESE WERE TOLD THAT PORT FACILITIES AT DAIREN TO ACCOMMODATE 50,000 TO 100,000 TON SHIPS WERE COMPLETED ON JULY 1.

4. COMMENT: THE THIRD QUARTER AGREEMENTS REPRESENT CONCESSIONS BY BOTH SIDES. WHILE UNWILLING TO BREAK RANKS WITH THE RECENT OPEC PRICE DECISION, PEKING WAS WILLING TO SHAVE PRICES TO GET THE JAPANESE TO TAKE MORE OIL. THE ADDITIONAL OIL REPRESENTS ONLY ONE-THIRD OF THE TWO MILLION MT OPTION HELD BY THE JAPANESE. THE UNCLASSIFIED

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EXTRA 700,000 MT WILL EARN THE CHINESE ABOUT US\$63 MILLION ON AN F.O.B. BASIS. THE REDUCTION IN THE FREIGHT RATES WILL BE MORE THAN OFFSET IF THE CHINESE INCREASE THEIR SHARE OF THE DELIVERIES. FOR THE JAPANESE, THE LOWER FREIGHT RATES AND OAE NEW PORT FACILITIES WHICH PERMIT THE USE OF MORE ECONOMICAL SIZE TANKERS WILL LOWER THE LANDED COST OF CHINESE OIL, AND MAY LEAD THE JAPANESE TO EXERCISE MORE OF THEIR OPTION LATER THIS YEAR.

HOWEVER, THE PROBLEMS OF THE HIGH BASE PRICE AND THE  
REFINING CHARACTERISTICS OF CHINESE CRUDE CONTINUE TO  
INHIBIT MAJOR INCREASE IN JAPANESE IMPORTS.  
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